

RD AN No. 4094 (1944-I)
June 29, 2005

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors

FROM: Russell T. Davis *(Signed by Russell T. Davis)*
Administrator
Rural Housing Service

SUBJECT: Supervised Bank Accounts (SBAs) and Custodial Accounts
used in conjunction with Mutual Self-Help Technical Assistance Grants

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide consistent guidance concerning the use of Supervised Bank Accounts (SBAs) in connection with Mutual Self-Help Technical Assistance Grant construction, and the use of Custodial Accounts to eligible Self-Help Technical Assistance Grantees.

COMPARISON WITH PREVIOUS AN:

There is no previous AN on this subject.

BACKGROUND:

In a recent Management Control Review of the Section 523 Mutual Self-Help Technical Assistance Grant program, it was noted that there was a lack of consistency in how states were handling the SBAs and in fact there was often a lack of consistency between offices within a

EXPIRATION DATE: June 30, 2006

FILING INSTRUCTIONS:
Preceding RD Instruction 1944-I

state. Borrowers' Section 502 loan funds are typically being placed in Supervised Bank Accounts; however Form RD 402-1, "Deposit Agreement" was not found in all Section 502 borrower case files, Form RD 402-2, "Statement of Deposits and Withdrawals" was not being properly maintained and there is no consistency in how accounts are being maintained.

IMPLEMENTATION RESPONSIBILITIES:

Supervised Bank Accounts

Rural Housing Program Directors should ensure that field offices are trained in the correct use of SBAs as outlined in RD Instruction 1902-A.

The "Deposit Agreement" is required pursuant to RD Instruction 1902-A §1902.6 and is to be signed by the applicant, the financial institution and the Rural Development field office employee.

While it was found that the majority of field offices were keeping good documentation of Section 502 expenditures, with copies of invoices readily available, organized and easy to match with checks written, many were lacking Form RD 402-2, "Statement of Deposits and Withdrawals", the form was not properly completed or copies of invoices were not available or easily matched with checks written. There must be a paper trail reflecting all transactions. RD Instruction 1902-A requires that expenditures be clearly shown on Form RD 402-2. As with any SBA, checkbooks should be kept in a secure, locked file cabinet or office safe and families should never sign blank checks.

Custodial Accounts

In an effort to alleviate the field office work load, the National Office will allow the use of Custodial Accounts to eligible Mutual Self-Help Technical Assistance Grantees.

Some organizations that receive section 523 Technical Assistance (TA) funds to administer a Mutual Self-Help program may use this alternative method of accounting for their participating families' 502 loan funds. As in the traditional method of bill-paying, SBA's are established for each participating family and checks drawn on these accounts require signatures from both Rural Development and the families. The primary differences are in the number of checks required to be written from these accounts and the number of checks received by the vendor. In the custodial bill-paying system, the section 523 TA organizations maintain a separate custodial bank account. Throughout the construction process, some of each family's individual 502 loan funds are deposited into this bank account and held in trust for the families until the funds are disbursed to various vendors. The custodial bill-paying process works in the following way: On a regular basis (weekly, bi-weekly or monthly), invoices for construction expenses are tabulated for each family. One check from each family is made payable to the 523 grantee in the appropriate amount to cover payment of these invoices. These checks are deposited into the custodial bank account. One check is then made out to each vendor from the custodial bank

account in payment of the appropriate families' costs. As indicated above, the advantage of the custodial method of bill-paying is a major reduction in the number of checks that must be written and co-signed for each family. For a grantee with more than one group building at a time, this can represent a major savings in time for both the section 523 grantee that must prepare all of the checks and the Rural Development staff who must sign all of the checks.

This Administrative Notice sets forth the guidelines for approval of Mutual Self-Help Grantees who desire to independently maintain SBA accounts for section 502 participants. Approval for each grantee is optional and at the discretion of the Rural Development State Office. We encourage each state to adopt this practice, as appropriate, to ensure uniform bill-paying policy implementation.

At a minimum, the following requirements must be met for grantees seeking approval:

1. The grantee should have successfully completed at least one grant cycle.
2. The grantee has an adequate bookkeeping system approved by Rural Development to assure funds deposited in each grantee's account on behalf of the 502 borrower is properly distributed and maintained.
3. The grantee has a record-keeping system, which shows that the cost of the materials and services were allocated to each borrowers' account in relation to the actual material and service used by each borrower.
4. Supervised Bank Accounts maintained by the grantee on behalf of a Mutual Self-Help group with funds exceeding \$100,000 at any time must have acceptable collateral pledged with the Federal Reserve Bank in an amount not less than the excess as outlined in RD Instruction 1902-A §1902.7. To avoid this situation the field office should monitor the custodial account as draws are requested. It is advantageous to make smaller draws on the borrower's accounts, more frequently, as funds are needed.
5. A letter from the self-help grantees accounting auditor indicating that the proposed method for bill-paying provides a means for an adequate audit trail.

For questions pertaining to this AN, please contact Chris Ketner, Senior Loan Specialist for the Single Family Housing Direct Loan Division at (202) 690-1530 or Carolyn Bell, Branch Chief at (202) 720-1532